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**Panama and the Canal**  
**U.S. Engaging in the 21st Century**

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## Panama and the Canal U.S. Engagement in the 21st Century

### **The Countdown**

Perhaps some of us will be watching CNN at noon on December 31, 1999. It will be a scene well worth viewing, for at that moment in time, the United States will hand to the Government of Panama full and sovereign control of the Panama Canal. This simple but momentous act will fulfill the obligations of the Panama Canal Treaty of 1977, which require the transfer of control and the withdrawal of all U.S. personnel by that date. Most of the world and the media will be focused on the New Year's Eve festivities for the big one--the Year 2000--but the ceremony in Panama will be important just the same. As we prepare to bring in the shiny new 21st Century, we need also to mark the passing of the old, an era filled by one of America's greatest achievements--the building and operation of the Panama Canal.

Perhaps as we watch the television screen, we will witness a lone American emerge from the last air-conditioned building on an otherwise deserted Howard Air Force Base, switch off the lights, and run to a waiting plane. Twenty years ago, this was the scene Panama had hoped to see. Yankee go home. Panama Soberana! And this is the scene the United States has prepared for: a sad and ignominious end to Teddy Roosevelt's dream. This is the scene we will see if we do nothing except let the Treaty run its course.

But then, perhaps that is *not* the scene we will see. Perhaps we will see it as it might be: the United States with the one hand turning over the "keys" of the Canal to the

Republic of Panama, and with the other hand, reaching out in friendship and cooperation for a new beginning with Panama. And this might lead to an extended U.S. military presence.

## **New Opportunities**

In a truly remarkable turn of events, opportunity now knocks. As the United States continues to draw down its presence in Panama to meet the Treaty turnover date, eighty years of Panamanian resentment have collapsed into reluctant respect and recognition of the U.S. role in the Canal. Although all Panama's motives may not be pure, the majority of Panamanians now want us to stay. And yet in the ultimate irony, Americans now seem to want to leave.

Exploratory talks have been sanctioned by both governments, and may lead to formal negotiations. The presidents of both countries have publicly stated their willingness to consider a U.S. military presence in Panama after 1999. For the United States, the focus of the talks will center around the strategic importance of the Canal to our country, and national options and alternatives if it should stop operations. Questions clearly exist about Panama's capability to manage and operate the complex and aging facility. Panama, on the other hand, faces tough domestic political issues concerning national sovereignty in the face of continued U.S. presence. To date, even the President of Panama has made it clear that Panama views a U.S. presence in purely economic terms. Neither side, unfortunately, seems to be thinking in the long term, or about the grander issues: strengthened relations and cooperation between Panama and the United States;

sustained economic prosperity for Panama and the Hemisphere; support to democracies in Latin America; and improved security and stability.

### **The Negotiating Climate**

For negotiations to succeed--in whatever outcome--the United States must do two things in Panama. First, the nation must recognize that the Canal may be just as important to our global interests and long-term national security and prosperity as it was a century ago--and even more so for our neighbors to the South. The Canal remains a "funnel for world commerce," a key element of expanding global maritime trade, and an important asset for U.S. military forces. Second, our leaders must use fresh strategies to grow a national vision for "our" hemisphere. The old thinking about Panama and Latin America must be discarded. These are not "banana republics" anymore, Third World countries to be relegated to the trash heap of the Monroe Doctrine. The economic and political engines in Latin America are powering up, and we must team with them.

We must take seriously the opportunity to join with Panama after 1999. And the union, if any, must be forged without subterfuge or secret agendas, but with honesty and long-term commitment. A U.S. military presence in Panama--at Panama's invitation--can enhance the security of the Canal and national security objectives in the hemisphere. Forward presence of U.S. forces will leverage the flexibility and effectiveness of USSOUTHCOM in missions such as counter-narcotics, disaster and humanitarian relief, and peacekeeping. Our role will continue to help Panama along its road to a strengthened democracy and a revitalized economy. And our continued commitment will demonstrate

to our Latin neighbors in particular that the United States has not turned its back on the region, but has made a new and greater commitment in the spirit of partnership.

### **Teddy Roosevelt's Canal**

The list of visionaries fascinated by the idea of a ship canal across the Panamanian Isthmus is a veritable "Who's Who" of history, reaching back nearly 500 years. Columbus was first to consider the possibility of a route to the Pacific when, on his fourth voyage, he discovered the mouth of the Chagres River--the River of Crocodiles, as he called it<sup>1</sup>. In 1534, Charles V of Spain ordered the Governor of Panama to survey the Rio Grande and Chagres Rivers for a possible canal--incredible in that his survey followed the course of the present Canal. Vasco Nunez de Balboa, Sir Francis Drake, Alexander Von Humboldt, Benjamin Franklin, Henry Clay, John C. Calhoun, and Ulysses S. Grant all dreamed of a canal. The French, under Count Ferdinand de Lesseps (builder of the Suez Canal) tried vainly for twenty years to build a canal. In the end, it was Teddy Roosevelt who made it a reality.

At the turn of the last century, President Theodore Roosevelt was convinced of two things: one, that a canal across the Isthmus of Panama was essential to American naval power; and two, that Colombia was incapable of maintaining the order necessary for the operation of such a waterway. When the Colombian Senate rejected a treaty with the United States for a canal right-of-way, he determined to take it by other means. When Panamanians revolted against Colombia in 1903, he immediately granted recognition to the new Republic of Panama, and used U.S. military force to aid in the revolution. In

return, of course, he secured his prize: a treaty with Panama giving the United States the right to build, operate and control a canal across Panama--in perpetuity. It is worthy of note that the Panamanian signatory on this treaty was not a Panamanian at all, but a French citizen. Interestingly enough, Philippe Bunau-Varilla had served as the fourth in a series of chief engineers on the French canal; the first three died of yellow fever, and although Bunau-Varilla also caught the disease, he survived to play a role in the U.S. effort.<sup>2</sup>

Roosevelt considered the Panama intervention to be one of his two greatest achievements, the other being his deployment of the Great White Fleet around the world. He later proudly recalled how he initiated both actions without consent of Congress, the American people or his Cabinet: " I determined on the move without consulting the Cabinet, *precisely as I took Panama without consulting the Cabinet...*"<sup>3</sup> Exactly how Roosevelt "took Panama" is still a matter of debate, but it is interesting to note that even his defenders faced "...insinuations widely expressed in the journals of the time that the authorities at Washington engineered the revolution and extended covert aid to its promoters."<sup>4</sup> From the first day of his victory, relations with Panama over the Canal would fester with resentment for nearly a hundred years; and it is this legacy that continued in the 1977 treaties and threatens us again as we consider our options for the next century.

The Republic of Panama was born on November 3, 1903. In February 1904, Panama and the United States ratified the Panama Canal Convention, otherwise known as the Hay-Bunau Varilla Treaty of 1903, which granted to the United States in perpetuity the use and control of a right-of-way for the construction and operation of a canal. An

area extending roughly 5 miles on either side of the Canal route was designated the **Canal Zone**. Of the Canal Zone, Article III states that the United States "...would possess and exercise if it were the sovereign of the territory...to the entire exclusion of the exercise by the Republic of Panama of any such sovereign rights, power or authority."<sup>5</sup> In return, the United States agreed to guarantee the independence of Panama and the neutrality of the canal in perpetuity. The United States paid \$10 million to Panama for rights to the Canal; \$40 million to the bankrupt French Canal Company; and \$25 million to Colombia.

Construction on the Canal began in May, 1904. Almost reverently called the "Big Ditch", the Canal was big indeed. Remember, the Ford Model-T automobile was not born until four years later in the spring of 1908. By today's standards, construction machines were crude. Yet in ten years, the American builders had "divided the land, and united the world." In so doing, they conquered malaria and yellow fever; built the largest concrete structure in the world; hung the largest steel gates in history; created the largest earthen dam; made the largest man-made lake; and constructed the greatest lock-canal ever made. Dirt from the canal excavation would fill a trench 10 feet deep and 50 feet wide, spanning our country from New York to Los Angeles.<sup>6</sup> This was like the moon landing, except it was 1914.

### **Panama Canal Treaties of 1977**

The Treaty of 1903 defined the U.S. role on the Canal with little change for nearly 75 years. Then, in 1977, the United States entered into two new treaties with Panama that changed forever not only the control of the Canal, but also the relations between the

countries. The difference between the treaties is simple but striking. The 1903 Treaty gave perpetual control of the Canal to the United States. The Panama Canal Treaty of 1977 gave control of the Canal--forever--to the Republic of Panama. It also guides the transfer of control through a "transition period" commencing in 1979 and ending on the last day of 1999. The transition period gave time for Panama to build an adequate management and defense force to administer and defend the Canal. It established a bi-national Panama Canal Commission to administer the Canal through the transition period and to assist Panama in forging an adequate corporate structure. This is the only U.S. Federal agency run by a foreign national; its current Panamanian administrator was confirmed by President Clinton and the Congress.

The companion Treaty Concerning the Permanent Neutrality and Operation of the Panama Canal (referred to as the Neutrality Treaty) states the roles of the two principals after full transfer of control. In the Neutrality Treaty, both countries guarantee--again in perpetuity--the security and neutrality of the Canal. Both Panama and the United States have a uni-lateral right to keep the canal open and neutral.

Signed by President Carter of the United States and General Omar Torrijos of Panama, the 1977 Treaties were born out of intrigue, secrecy and a scent of scandal--much like the 1903 Treaty that preceded them. There was enormous controversy and rancor in both countries.

On the U.S. side, the facts seem to bear out that even President Carter misrepresented the facts about treaty negotiations--at least publicly and on the record to Congress. In short order reversing the stand he took in pre-election presidential debates

with incumbent President Ford, when he adamantly insisted he would never relinquish control of the Canal, Carter negotiated in earnest with General Torrijos for a new treaty. And despite evidence and testimony to the contrary, President Carter denied at the time that Torrijos had threatened to destroy the Canal unless the United States conceded control. Carter himself later admitted, however, that Torrijos had indeed made the threats, and more importantly, that the threats had influenced his decision.<sup>7</sup>

The treaties themselves were not without controversy. Concern was so great in Congress regarding U.S. access to the Canal (especially in crisis or war), that Carter and Torrijos were forced to issue a “Statement of Clarification” on the treaties. In this unsigned statement, both sides agreed that U.S. warships would receive “head of the line” priority transit in times of emergency, and that the United States could use military force, if necessary, to maintain a free and open Canal.<sup>8</sup> The statement is not formally amended to the Treaty, and unlike the Treaty itself, was neither ratified nor submitted to a plebiscite in Panama.

American opposition to the treaties was strong. For example, four retired admirals, each having served as Chief of Naval Operations (Arleigh Burke, Thomas H. Moorer, Robert B. Carney, and George W. Anderson), wrote to the President to express concern over the loss of the Canal: “...The loss of the Panama Canal, which would be a serious setback in war, would contribute to the encirclement of the United States by hostile naval forces and threaten our ability to survive.”<sup>9</sup>

In the face of this opposition, the Administration engaged in intense lobbying with the Congress and the American people, even taking the issue to the public with a

Presidential televised "fireside chat." So intense was the opposition in Congress and among special interest groups that a "Truth Squad" led by Sen. Laxalt, R-Nev., was formed to expose what they called "pure propaganda" by the Carter administration.<sup>10</sup>

On the Panama side, the stature of Torrijos himself was an issue. Although all would agree even now that Torrijos is a larger-than-life hero to the Panamanians, U.S. diplomacy struggled with the fact that he was a military strongman who had assumed control in 1968 by overthrowing a democratically elected government. Torrijos himself did little to dispel these opinions. During a January 1978 visit to a Panamanian school graduation, with Senators Baker, Chafee and Garn in tow, Torrijos addressed the students with a question. "Am I a forceful or an affectionate dictator?", he asked the students. The answer, of course, was given in chorus: "an affectionate one." The validity of the original 1903 Treaty had been questioned by the Panamanians themselves for precisely these kinds of issues--the legitimacy of those ruling.

The importance of hindsight at this juncture is not to judge the instruments that are in place, or their origins. But as the United States contemplates a role in Panama after 1999, it is prudent in my judgement to recognize that previous intrigues and backroom agreements have hindered our relationship with Panama. Our rationale for the approaching decision doesn't need to be cloaked in secrecy; good, sound reasons exist for making our choice. We should not focus on hidden agendas on either side, but rather on candor and the building of national and international consensus.

### **Status of Implementation**

Although the United States and Panama are preparing to engage in discussions concerning the extension of a U.S. military presence in Panama beyond 1999, the transition of Canal control and the withdrawal of U.S. personnel is proceeding rapidly. These acts will fulfill our obligations under the 1977 Panama Canal Treaty. The jurisdiction of the entire Canal Zone, with the exception of selected military installations, has already reverted to Panama. In addition, U.S. Southern Command (SOUTHCOM) Headquarters, currently located at Quarry Heights, Panama, will move to the Homestead, Florida area; its mission will be accomplished from CONUS.

The U.S. civilian workforce on the Canal has been drastically drawn down during the transition, and Americans now hold fewer than 10% of the jobs. Panamanians will hold all positions on the Canal by the turnover date, but their transition into key positions such as Canal pilots (only 57%) and management (only 40%) must be accelerated.<sup>11</sup>

The reversion of property to Panama has not proceeded efficiently. To a large degree, this may be explained by the "lost decade" of General Manuel Noriega, culminating in the U.S. invasion of Panama on December 20, 1989 during Operation Just Cause. Only 10% of the buildings and 20% of the land has been handed over, prompting the CinC, U.S. Southcom to remark that "we are at a crisis point."<sup>12</sup> To help improve the situation, Nicolas Ardito Barletta, economist and former president of Panama, was appointed on May 2, 1995 as the new administrator of the Inter-oceanic Region Authority, the Panamanian institution responsible for coordinating the transfer of properties.<sup>13</sup> Barletta is less than optimistic in his appraisal of progress: "Unfortunately, because of the political crises the country was going through, we started this work late. It is one of my

greatest worries." On military installations alone, only 16,000 of the 76,000 acres and 420 of the 8,155 buildings have been transferred.<sup>14</sup>

In spite of these difficulties, the United States and Panama continue to march in lockstep toward full treaty implementation, and a hard turnover date.

### **Panamanian Operation of the Canal**

On August 14, 1914 the SS *Ancon* secured a place in history as the first ship to officially transit the Panama Canal from ocean to ocean. The Canal cost \$380 million to build. Since that first passage, however, the Canal has been a self-sustaining operation, its tolls covering not only the cost of its operations, but paying to the U.S. Treasury interest on the investment as well as costs of all improvement programs.<sup>15</sup> It has never cost the American taxpayer a nickel to run--by law<sup>16</sup>, and as long as it remains under U.S. control, it never will.<sup>17</sup>

On the first day of the next century--the next millennium--the rules of the game will change forever. Many serious questions about Panama's ability to manage and operate this complex facility remain unanswered. Will Panama continue to re-invest the huge funds necessary for maintenance and modernization? Or will it run the Canal hard, then put it to bed wet? The high cost of Canal operations leaves a meager margin for maintenance, yet these funds will be a most tempting and vulnerable prize to corruption or to managers seeking to use the Canal as a revenue-producer. It is precisely this concern that is raised, for example, by the run-down state of the terminal ports--and the once proud Panama Rail Road--which in ten years have literally rotted away from sheer neglect.

The Panama Canal was not a U.S. goose laying golden eggs to fatten the national treasury. And it won't fill that role for Panama. The Canal is old and maintenance intensive, and enormous investments in modernization are needed to improve its efficiency. Perhaps the best measure of how well Panama may perform this task is the expectation of the customer, in this case the global maritime traders. Among this group there is deep concern, especially among the Japanese who worry about near and long term stability in Panama; they want to see a U.S. commitment to the economic and political stability of Panama.<sup>18</sup> There is also a lack of trust by the international investment community for fair and just treatment by the judicial system in Panama. A small U.S. military presence in Panama after the turnover--for a limited time--would encourage shipping companies and foreign investors.<sup>19</sup>

Current Operations. Canal traffic continues at near-record levels, and Panama will inherit a Canal with nearly double the capacity of 1914. The Canal is better than ever. The volume of maritime trade climbed from 30 million tons in 1950 to 190 million tons in 1992. In 1995, a record 216 million tons of shipping passed through the Canal.<sup>20</sup> And this is projected to be more than 220 million tons by 2010,<sup>21</sup> with a 50% increase on the drawing boards. Revenue from tolls is approaching \$600 million annually.<sup>22</sup> An increasing share of the world's maritime trade is dependent on the Canal.

Labor Force. The Canal labor force that Panama will inherit on January 1, 2000, will be well-trained and capable of operating the Canal. More than 90% of Canal workers are already Panamanians, and the number will hit 100% before turnover. There are significant issues that need to be resolved before turnover, however. Panamanian workers

are guaranteed certain rights by their constitution--the right to strike, for example--that they do not enjoy in their current status as Commission employees. Without a special constitutional waiver, which to date has not been passed, labor relations could create disaster. Imagine, if you will, a month-long strike--and a thousand ships at anchor in the approaches to the Canal, awaiting transit. Another problem is the wage scale. In the era of U.S. control, it was popular in Panama to look into the Canal Zone and note the inequity: rich Gringos and manicured lawns on one side, Panamanian slums on the other. Now Panama must face the problem within their own economy. Panamanians working on the Canal earn a U.S. wage scale, many times greater than the average \$2,800.00 per capita income in Panama.<sup>23</sup> Add to that chronic unemployment, which is thought to be as high as 50% in the terminus city of Colon. And the administration of the Canal itself is not resolved, despite the rapidly approaching turnover. When the Panama Canal Commission dissolves in 1999, a Panamanian government entity (as yet undefined) will assume the role--presumably, but the Parliament has not enacted the requisite laws.<sup>24</sup> And the clock keeps ticking....

Economy. Panama's economy is in trouble, and probably poses the greatest threat to the Canal. With a national debt of \$7 billion--the same as its GDP--Panama may be tempted to over-harvest the bounty of Canal toll revenues. This is the fear: if Panama consumes the "seed corn" produced by the Canal to solve near-term economic problems, rather than continue to pour what is necessary back into Canal maintenance and modernization, the Canal will quickly fall into disrepair. Maintenance is the cornerstone of the Canal's day-to-day efficient operation. Between 1914 and 1977, the United States

spent over \$7 billion in improvements, maintenance and investments.<sup>25</sup> Since 1977 alone, over \$1.7 billion has been invested.<sup>26</sup> The digging has never stopped, as a previous Governor of the Canal Zone noted: "more material has been excavated since the Canal opened than the amount removed during the entire construction period."<sup>27</sup>

If Panama fails in its strategy to improve the economy by attracting investment and leveraging membership in the World Trade Association into a role in NAFTA, it is possible the government may be tempted to raise tolls and misuse revenues.<sup>28</sup> To achieve its goal of membership in international trade organizations, Panama must also fix the lax enforcement of intellectual property rights: patent, trademark and copyright laws.

Panama's number one economic priority is job creation. Because Panama's economy is fully U.S. dollar-based, inflation is stable. But despite high rates of growth (8-9%) following the ouster of Noriega, the current growth rate is only about 3% and falling.<sup>29</sup> The budget is bad news as well. In 1994, 78% of the \$4 billion budget went for social services and social security; 23% for education; and 16% for infrastructure. A whopping \$481 million was slated to service interest on the \$7 billion public debt. Like the United States, Panama currently has no plan to pay off the principal.<sup>30</sup> During the Noriega years, the GDP dipped by about 20%; high rates in the early 1990's reflect the U.S.-backed economic recovery. The current 2-3% growth rates are more normal. Half the population of 2.5 million is considered poor, with a third classified as extremely poor. As many as 20% of the population may be unemployed or underemployed. The typical minimum monthly salary for a Panamanian is about 200 dollars.<sup>31</sup>

The economic impact of the illicit drug trade and money-laundering may undermine long term prospects for stability. For example, a 40% growth in the construction industry reflects the current building boom, but it consists mostly of luxury apartments and office buildings.<sup>32</sup> Although some investment may be legitimate, the rate of construction is not reflected in building loans by local banks; most buildings are paid for in cash.<sup>33</sup> The Department of State's 1993 Narcotics Control Strategy Report concluded that "Panama remains a major narcotics money laundering and illicit drug transhipment nation."<sup>34</sup>

Environment. The Gatun-Madden Lake watersheds cover 1,289 square miles. Runoff from these sensitive watersheds fills man-made Madden and Gatun lakes and provides the billions of gallons of water needed for Canal operations. Each transit of a ship draws about 52 million gallons of water from this system--the "lifeblood" of the Canal.<sup>35</sup> Like all reservoirs, these lakes began to die as they were born. Siltation is a natural process and it leads inexorably towards reduced volume--and reduced Canal operations. Steps have been taken to decelerate the process of siltation by controlling deforestation of the watershed rainforest, but the problem is a serious one since some key areas lie beyond the control of Canal authorities. Panama must control the Canal environment, for environmental degradation can destroy the canal as certainly as any military attack. And damage to the Canal's ecosystem could take decades to restore.

Panama will do well to remember testimony of the Governor of the Canal Zone to the Foreign Relations Committee of the Senate on September 29, 1977, during the treaty debate, and I quote: "...From the completion of the Canal in 1914, and continuing today,

the Canal has operated efficiently, safely, and has provided excellent service at a reasonable cost...Major contributing factors toward this success have been: (1) a stable and well qualified workforce; (2) sound preventive maintenance practices; and (3) the financial and operational flexibility of this Government corporation."

### **Strategic Value of the Canal**

Perhaps any discussion of the Canal's importance needs to begin with simple strategic geography. If a ship in either the Atlantic or the Pacific Ocean must sail to the other, there are only two routes to follow. One is through the Panama Canal. The other is around the Horn. The alternative to the Canal is no different today than it was during the Spanish-American War of 1898, when the battleship *Oregon* made its dash from the Pacific around the South American continent to join the fighting off Cuba. Without the Panama Canal, just add 10,000 miles and 20 days steaming time. Especially in today's high pressure, schedule-driven shipping business, time is big money.

The Canal's numbers alone tell a powerful economic story, not just for U.S. maritime trade, but for the Hemisphere and the rest of the world:

- The Canal is important to American trade: 14% of all U.S. seaborne trade passes through the Canal; more than 65% of the ships going to or coming from U.S. ports transit Panama Canal;<sup>36</sup> 42% of all Canal cargo originates in the United States; and 21% of all Canal freight terminates in the United States
- About 30% of the total U.S. imports and exports flow through the Panama Canal.<sup>37</sup>

- Ecuador, Peru and Chile have vital economic interests in the waterway; the Canal handles 67, 43, and 48 percent of their trade, respectively.<sup>38</sup>
- In 1966 alone, the aggregate savings to ships transiting the Canal in operations alone was estimated at \$150 million.<sup>39</sup>
- Over 96% of the world's ships can use the Canal; only the very largest ships can't be accommodated by the Canal's lock chambers, which are 110 feet wide and 1,000 feet in length.
- The Canal can handle 98% of U.S. naval vessels, including nuclear submarines.

The Canal continues to play a vital role in our strategic interests in the stability and security of Latin America. United States exports to Latin America rose from \$30 billion in 1985 to \$79 billion in 1993, creating an estimated 900,000 jobs at home. Cultures are evolving. The United States is already the 3rd most populous Spanish-speaking country in the world. With continued rapid growth, Latin America may be the predominate economic region for the United States in the next 20 years.<sup>40</sup> And because of expanding trade with the emerging economic giants and international markets of the Pacific Rim, China and the Far East, the Canal affects our global interests as well.

The Canal is moving increasingly toward internationalism. In 1993, a Tripartite Canal Alternatives Study Commission, composed of Panama, Japan and the United States, reviewed alternatives for canal expansion. The construction of a third set of locks (actually under construction at the outbreak of WW II) and the widening of Gaillard Cut (cost: \$200 million) were deemed adequate to support traffic through the year 2020. The construction of a sea-level canal was rejected as too expensive and unnecessary.<sup>41</sup> A

“Universal Congress for the Canal” has now been scheduled in 1997 to talk about operations of the Canal in the 21st Century. Participants: Panama, the United States, Japan--and France. Nations dependent on the Canal, users and major shipping companies will have a forum for their ideas and views on future operations.<sup>42</sup> Like it or not, the Canal is slipping from the sphere of U.S. influence.

The Commander-in-Chief (CinC), U.S. Southern Command has stated that “we have no vital military or economic interests directly at stake in Panama” that cannot be defended from the United States.<sup>43</sup> He went on to say that “From air bases to jungle warfare schools to counter-drug operations, there is no function currently being performed in Panama that we can’t perform from somewhere else.”<sup>44</sup> Certainly this applies to our defense of the Canal under the Neutrality Treaty, which could be accomplished from bases outside Panama.

This is also consistent with his ranking of U.S. security interests in the hemisphere: adequate C3I in SouthCom’s area of responsibility; multi-national military contacts with Latin defense organizations; democracy and economic growth in the region; effective counter-narcotics operations; and the implementation of the Canal treaties.<sup>45</sup> The threats in this Latin America are diverse, and difficult to solve: trans-national crime, insurgencies, drugs, corruption, border disputes, unstable economies, and issues of civilian control of the military.

The CinC also cites, however, operational reasons for retaining access to Howard Air Force Base (the only C-5 capable U.S. air base in Central or South America) to support counter-drug activities, military deployments in the regions, and humanitarian

operations. Likewise, the jungle warfare training, small boat operation, and special operations facilities in Panama provide operational and technical advantages.<sup>46</sup> For operational readiness, forward basing has advantages. The bases also support 50,000 U.S. troops that SouthCom deploys annually on average to participate in international exercises and operations throughout Latin America.<sup>47</sup>

Not to be forgotten, either, is the fact that in 1994, Panama abolished its army. The constitutional reforms shifted responsibility for public order and security to the police, at the moment the only armed force in Panama. Although Panama has plans to mobilize special police forces when required, the reform states that "All Panamanians are obligated to take up arms to defend national independence and the territorial integrity of the state."<sup>48</sup> In the absence of a trained Panamanian army, it is important to consider the security implications of the Neutrality Treaty, and the meaning of intervention.

There are currently no viable alternatives to the Panama Canal, other than an extended sail around Cape Horn. Shippers, however, are viewing options to degraded Canal service after the turnover. Chief among the threats to the Canal are market source changes; the development of land bridges; and larger ships. Market source changes such as the growth in intra-Asian routes and the Suez route to Europe pose the greatest threat. Already Mexico, Argentina and Brazil don't use the Canal, and as economic growth occurs in other parts of the world the Canal's share may fall. A land bridge, such as a high-speed rail service across the United States, offers future promise but will not compete for current traffic; only 13% of Canal cargo is containerized.<sup>49</sup>

The Panama Canal has played a pivotal role in our foreign policy in Latin America. The Canal was an invaluable base from which the United States projected power and influence, and was able--even in the heat of the Cold War--to promote and ensure a secure "southern flank." The Canal provided us secure access to resources and allowed us to deny Latin American access to our adversaries.<sup>50</sup>

In that respect, the Canal and our bases in Panama may be more important than ever. As the non-traditional threats proliferate--drug cartels, terrorists, insurgents and other non-state aggressors--we face along with our Latin partners a far greater and more insidious danger. Containment and defeat of these threats are just as important to our nation's survival as was the defeat of the ideologies and insurgencies of the Communists. Without our commitment, the newly democratized countries in Latin America risk destabilization and chaos--and the danger bleeds across not only their borders, but ours.

The strategic value of the Canal goes far beyond the passage of a merchant ship through the waterway. Our relationship to the Canal, to Panama, and to the entire Hemisphere is interwoven in history, in economics, in trade, in security, and more now than ever, in blending cultures. The strategic value of our policies toward Panama, then, will be difficult to estimate by independently weighing the parts.

### **U.S. Forces in Panama in the 21st Century**

The United States must first and foremost respect and fulfill our treaty obligations to transfer control of the Canal to the government of Panama. Beyond that immediate objective, we have options available to us that were not possible just months ago: that is the extension of American presence and basing rights in Panama after 1999. This situation

has come about by a sequence of events unthinkable in 1977--Panamanian leadership actually initiating discussions on treaty modifications that would permit the United States to continue operating military facilities in Panama. Had this development come at the political insistence of the United States, it would have been unacceptable. Even with the Panamanians proposing the idea, any change to the Treaty of 1977 will carry enormous political risk.

The Economics. President Perez Balladares of Panama has opened the door for a new beginning by recognizing that "Now we are partners with the United States, with mutual interests in the area, and we want to build on that." He went on to compare Panama to Japan in this regard, noting that although Japan allows U.S. bases, it remains sovereign and self-sufficient.<sup>51</sup> Clearly, however, he is most concerned with the economic windfall that American bases will provide, noting that Panama "would only be interested for strictly economic reasons...Whether a U.S. military presence in Panama will produce economic benefits is precisely what we must explore."<sup>52</sup> Put another way, "...the invitation is being extended not for love of gringos but for love of their greenbacks."<sup>53</sup>

The Canal and the financial contribution of military installations have not been the only sources of U.S. economic assistance to Panama. Following Operation Just Cause, the United States poured \$462 million into Panama in an aid package designed to create jobs, revitalize the private sector, rehabilitate the country's infrastructure, and clear Panama's arrears to international lending institutions.<sup>54</sup>

With unemployment and poverty already at staggering levels, Panama will lose about 22,000 jobs and \$380 million in wages and sales if the United States withdraws

from Panama. This equates to more than 8% of the national economy. Try to imagine a similar impact on the U.S. economy: a shut-down of the "Big Three car makers, along with IBM and Exxon."<sup>55</sup> And, in a frightening addendum to these ills, estimates for Panama's bill to maintain the reverted properties run as high as \$50 million with an additional \$30 million for utilities and air-conditioning.<sup>56</sup>

Nicolas ArditoBarletta, Administrator of the Interoceanic Region Authority, however, stated that civilian uses of the Canal area could generate an annual income of \$1.5 billion and create 150,000 permanent jobs.<sup>57</sup> Compare that to other Panamanian projections that the reduced bases after 1999 would only contribute about 900 jobs and income of insignificant economic impact on Panama.<sup>58</sup> In any case, Panama believes that Asian investment in the conversion of bases to civilian use will be critical, and even the most ardent supporters of this policy concede that U.S. presence is viewed by the investment community as a stabilizing influence.

Popular Support. A Cid/Gallup poll indicated that 86% of Panamanians now want U.S. military bases to remain after the year 2000.<sup>59</sup> The poll also revealed, however, that 11% of the 1,202 Panamanians polled believe the bases should be dismantled in strict accordance with the Carter-Torrijos treaty. And in contrast to the Cid/Gallup poll, a separate poll taken at the School of Law of the University of Panama showed 67% of the 356 students surveyed opposing any U.S. bases after 1999.<sup>60</sup>

Strong opposition from nationalists who see continued U.S. presence as proof that Panama is not yet a "real" country is a real threat to any long-term agreement. This pro-sovereignty minority is vocal and exploits the tender issues like patriotism and

independence. For many Panamanians who are still focused on the real day-to-day problems--unemployment, crime, corruption, and education--the proper management and security of the Canal is low on the list of priorities.<sup>61</sup> When realism returns to Panamanian economic expectations of new basing agreements, and the money doesn't materialize, the United States may face, once again, explosive resentment in Panama.

Politics and More Politics. It is imperative that we establish a mutually respectful relationship between the United States and Panama. We must openly and fairly respond to concerns that the parties are not entering honestly and openly into negotiations. But, according to one news report, this may not be happening. Political sensitivity in Panama over the military basing issue is so great that White House aides had to "choreograph a 'spontaneous' raising of the issue by President Clinton" before President Balladares could discuss it.<sup>62</sup> Like the treaties that preceded these negotiations, the truth in this may be hard to find.

President Balladares flatly denies accusations that he is concealing the nature of the exploratory talks from the Panamanian people, although an unidentified U.S. official source claims that he is "dancing around the truth, trying to conceal the fact that its economy needs desperately the 16,000 jobs and \$300 million annual income generated by the U.S. presence."<sup>63</sup> At a September 7, 1995 press conference after his meeting with Clinton, Balladares flatly stated "This matter was broached by President Clinton, meaning there is an interest on the part of the U.S. government."<sup>64</sup> Whatever the case, the official line in Panama is that Clinton raised the issue.<sup>65</sup>

Security and Defense. There are no traditional external forces that threaten the Canal. It is unlikely that we will ever fight a major engagement in defense of the Canal. To begin with, the Canal is indefensible by conventional means, and there really is no plausible nation-state aggressor in the post-Cold War world: A conventional attack on the Canal is not likely, although this was clearly not the case when the United States built the canal nearly 100 years ago. To counter the threats of the day, the builders prepared a conventional defense. The alignment of the entrances to the Canal was offset from the locks to thwart direct assaults, and batteries of 14-in naval rifles stood guard against an attack by sea.

The direct threats to the Canal today are trans-national. The potential for sabotage and terrorism are far more real than a marching army or a hostile navy steaming for the Canal. Strong internal security is probably the only defense, supported by an effective intelligence apparatus. But perhaps the best defense of all is an efficient, neutral and accessible Canal. Then, even an opposing ideology loses its power, leaving only irrational acts to guard against.

### **To Base or Not to Base**

Our options to achieve our national policy objectives in Panama can therefore be characterized as follows:

1. Complete Withdrawal of U.S. Presence. There is considerable merit in this option. Politically and psychologically, it would send the clearest and most striking message to Latin America: the United States will honor its treaty obligations. In 1977 when the treaty was signed, there were many who couldn't believe the United States

would agree to actually turn over the Canal and even more who felt sure that the United States would never follow through. Closing our bases will save money, not a novel idea to sell back home to the American people when CONUS base closings are causing economic hardship. Closing the bases also will not critically wound the ability of SOUTHCOM to conduct its mission in South and Central America or significantly degrade our ability to provide Canal security. The headquarters is already scheduled to be moved to Florida and the mission can be met from the States. On the down side, forward bases provide an important advantage that should not be dismissed lightly, especially because of their role in counterdrug activities, disaster relief missions and humanitarian efforts. And we must consider not only the enormous impact our departure will have on the Panamanian economy, but also the secondary and tertiary impacts on Panama's willingness to use Canal revenues for maintenance and modernization, and Panama's willingness to seek foreign investment and the influences that would bring.

2. Extension of U.S. Military Presence/Bases. The most obvious (and perhaps the only) advantage this option offers is the opportunity for forward basing of U.S. military forces in the region. Clearly, it is better to have the enormous U.S.-controlled Howard Air Force Base in Panama than not, at least when conducting the traditional military missions in Latin America (counterdrug operations; support to the disaster relief mission; and humanitarian relief efforts). But the bases do not guarantee--and perhaps don't even enhance--the ability of the United States to provide for the neutrality and security of the Canal. And the political risk is enormous. Resentment over the U.S. role in Panama is a still a hot button throughout Latin America, and especially in Panama. Although the

Panamanian leadership, and perhaps the Panamanian people may favor the arrangement at the moment (if the price is right), this is a volatile and politically dangerous issue. For example, improper actions of a single member of the U.S. military stationed in Panama in the post-treaty years could result in serious political and strategic consequences. And don't forget about the folks at home. Bases are expensive. When military facilities are closing in CONUS to save money, how can we explain to our own people why it is critical to maintain bases in Panama?

3. Base Access Rights. Within a strict interpretation of the Treaty of 1977, this strategy option should be designed to meld all the elements of our national power and influence--economic, diplomatic, psychological, technological and military-- to meet our objectives in Panama. It transfers absolute control of the Canal and U.S. military bases to Panama as scheduled in 1999--leaving the 1977 treaties unchanged. Longer term cooperative relations, not short-term security solutions, would be the goal. But it would also allow us to negotiate rights--not control-- to Howard Air Force Base or Rodman Naval Station, and to cooperate with Panama to maintain whatever military capabilities we feel are essential. This would permit the United States to use these facilities as needed.

There is a cost, however, and the cost may approach what we would spend to maintain full control of the bases. The positive result, however, would be the political and psychological rewards: we keep a promise and Latin America gets the message. As a nation we must be willing to invest in the economy of Panama and to use all possible diplomatic leverage to encourage other nations to do so also. Competition internally for our own scarce resources makes this a tough sell, but consider what the alternative might

be: a major U.S. government bailout of a failing or broken Canal. Investment now may be our only way to protect American taxpayers from a raid on their treasury. That is, unless we are willing to lose the Canal.

## **Conclusions**

The decision to transfer control of the Canal to Panama is history and the transition is already in its final stages. Although this decision is now behind our nation, the important strategic question remains: Do we as a nation continue to have vital national security interests in Panama and the Canal, and are there policies we can formulate to advance these interests? I believe the answer is a resounding "yes." The Canal continues to have a vital role in our strategic interests not only in the stability and security of Latin America, but because of expanding trade with the emerging economic giants and international markets of the Pacific Rim, China and the Far East. It affects our global interests as well.

The policy objective for our nation in Panama must be to remain effectively engaged in Panama--politically, economically and diplomatically--to ensure that the Canal and the Republic of Panama remain healthy during the next century. This means that the Canal must remain free and open to world trade; it must be properly maintained and modernized; and tolls must be controlled at reasonable levels. Furthermore, Panama must remain democratic and economically independent.

In my opinion, economic threats pose the greatest risk to Panama and the future operation of the Canal. Panama is awash in illicit narcotics money and the corruption associated with it, including money laundering. The Canal generates huge revenues, but the 90-year old system demands a lot of care and feeding--and maintenance and modernization costs will be equally huge. Without a strong economy, will Panama dip its hand deep in the till to solve other economic problems? And if it does, at the expense of Canal re-investment, how would we protect our own taxpayers at home from a costly bailout? To counter these threats and support our policy objectives, we must invest in the economic well-being of Panama and encourage international investment as well.

The issue of whether the United States maintains a limited military presence in Panama is relevant to the mission of SOUTHCOM, but peripheral to the broader objective of a viable Panama Canal; it must therefore be decided in the context of Canal and regional security objectives. To our national strategy we must also add the psychological element--by keeping an agreement many doubted we would honor, we reap the good will and trust of our Latin neighbors.

Security of Panama and the Canal in the long term will depend most directly on the economic, political and social conditions of the country, not on traditional military strategies of the past.<sup>66</sup> As Foreign Minister Lewis of Panama said "It's in the best interest of the United States as a user of the Canal that Panama has a stable economy, a stable political situation, a democratic organ in place."<sup>67</sup> The threat to the Canal is really not military at all, at least not in the conventional sense. No land bridge exists through the Darien jungle between Panama and Colombia, and benign Costa Rica sits quietly 300 miles

to the west. The real threat in that regard is sabotage and terrorism, although it is highly unlikely that such a scenario might develop from within Panama. But take out Gatun Dam or one of many remote earthen saddle dams, and you spill the precious water of Gatun Lake and halt Canal operations for years. Sink a ship in Culebra Cut and you close the Canal for months, if not years. We must consider and deal with these threats, but who can argue that the key lies in holding Howard AFB?

So then, what Panama provides is a point of departure for our foreign policy with Latin America, a point from which we can effectively promote democracy, economic prosperity, and security.<sup>68</sup> The United States must therefore pursue policies that can achieve those broad objectives.

### **Recommendations**

Our policy must be flexible engagement with Panama. We should adhere to the original conditions of the Treaty of 1977. We should transfer control of the Canal to the Republic of Panama, as well as complete control of all military facilities in Panama. We must then find creative ways to stimulate and strengthen the economy of Panama--both as a nation and in concert with the international community--to ensure the proper levels of long term investment in maintenance and modernization of the Canal.

Extension of our current basing arrangements in Panama would be bad policy. We have recognized that the bases are not essential to the mission of SOUTHCOM. Of course, there are advantages to holding forward bases in Latin America--for example, support to counterdrug operations, disaster relief, etc. But we can do these things from CONUS and Panama doesn't really want our military to remain on their soil. What we are

hearing is an appeal from the Panamanians for economic assistance to make up for the lost revenue.

Instead, we should negotiate openly with the Panamanians for access to the bases-- for a limited period, and for a smaller force structure. We must take care not to deceive the American public and we must take steps to prevent the deception of the Panamanian people. Perhaps as President Carter did during the 1977 treaty negotiations, the President should take this to the people in another televised "fireside chat."

Tell it like it is:

- The bases offer advantages to both sides, but they are not vital, nor will they become the "cash cow" that some in Panama expect;
- The real value of the bases is strengthened relations, security and stability throughout Latin America;
- The Panama Canal is and will remain an important waterway for the United States and we will honor our commitments to its access and neutrality;
- Most importantly, we will respect the sovereign government of the Republic of Panama.

Perhaps General Omar Torrijos said it best with his famous pre-1977 political slogan: "Never on your knees; on your feet or dead." Panama is a sovereign nation soon to have full control of the Panama Canal and all its territories. We must as a nation respect those conditions but remain flexibly engaged in Panama to ensure stability and a secure, neutral waterway into the 21st Century.

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